PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

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Ratesetting

TO PARTIES OF RECORD IN RUMAKING 14-03-003:

This is the proposed decision of Administrative Law Judge Melissa Semcer. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's November 30, 2017 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, ex parte communications are prohibited pursuant to Rule 8.3(c)(4)(B).

/s/ ANNE E. SIMON
Anne E. Simon
Acting Chief Administrative Law Judge

AES:lil

Attachment

Decision **PROPOSED DECISION OF ALJ SEMCER** (Mailed 10/16/2017)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Address Natural Gas Distribution Utility Cost and Revenue Issues Associated with Greenhouse Gas Emissions.	Rulemaking 14-03-003

DECISION MODIFYING DECISION 15-10-032

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DECISION MODIFYING DECISION 15-10-032

Summary

This decision modifies Decision (D.) 15-10-032 pursuant to the limited rehearing granted by D.16-04-013. The Commission finds that Public Utilities Code Section 453.5 does not apply to allocation of greenhouse gas (GHG) allowance proceeds for the natural gas utilities. Pursuant to California Code of Regulations Chapter 17 Section 95893(d), the Commission adopts a greenhouse gas allocation methodology that distributes greenhouse gas proceeds to eligible retail natural gas customers on a non-volumetric basis. This allocation methodology will remain in effect unless or until the Commission updates or adopts new policies for the period beyond December 31, 2020.

The residential natural gas California Climate Credit must be returned in April of each year, starting in April of 2018. The Commission directs that each utility delivers its non-residential California Climate Credit on the same timing as the residential credit. Recognizing that there may be significant steps required of the utilities to implement the non-residential credit, for 2018 only, the Commission grants some leeway through June 2018 to distribute the 2018 non-residential California Climate Credit.

As of issuance of this decision, natural gas ratepayers are facing almost three years of accrued GHG allowance proceeds and compliance costs. To mitigate against rate shock, the natural gas utilities must net accrued GHG compliance costs for the years 2015, 2016 and 2017 against GHG allowance proceeds (less administrative and outreach costs, as directed in D.15-10-032) for the same years. In the event that GHG compliance costs exceed proceeds, net costs must be amortized in rates over a 12-month period. If GHG proceeds exceed GHG costs, remaining proceeds must be distributed equally across each of the remaining GHG proceeds disbursement periods from 2018-2020.

On a going forward basis, GHG compliance costs should be included in rates beginning March 1, 2018. GHG proceeds for the year 2018 should be distributed according to the methodology and timeline adopted herein and using the procedures

adopted in D.15-10-032. GHG costs for January-February 2018 must be amortized over the remaining ten months of 2018.

The Commission will require several advice letter filings from the utilities in order to fully implement the residential and non-residential California Climate Credit as well as to implement the inclusion of GHG costs in rates beginning in March of 2018 and the netting of 2015-2017 GHG compliance costs and proceeds.

1. Background

In late 2015, the Commission adopted Decision (D).15-10-032. That decision approved methodologies for natural gas utilities to use when calculating forecast and recorded natural gas-related greenhouse gas (GHG) allowance proceeds and GHG costs associated with complying with the California Cap-and-Trade program (Cap-and-Trade). Among other actions, D.15-10-032 required gas utility ratepayers not individually covered by Cap-and-Trade to pay for the cost of the utilities' compliance with the Cap-and-Trade program by requiring utilities to include GHG compliance costs in natural gas rates on an equal cents-per-therm basis. As a result, natural gas rates will rise for all retail ratepayers of the natural gas utilities, except for covered entities that are directly regulated by the California Air Resources Board (ARB) for their compliance obligation ("exempt ratepayers").[1]

Under the Cap-and-Trade laws adopted in Assembly Bill (AB) 32[2] and regulations adopted by ARB, the natural gas utilities are required to consign to auction a certain portion of the allowances they receive, with the proceeds to be used exclusively for the

[1] Ratepayers that are individually covered (covered entities) by Cap-and-Trade must comply on an individual basis with the Cap-and-Trade program. Such ratepayers are exempt from paying GHG costs to their utility and do not see GHG costs in natural gas rates. Covered entities are those end-use customers who emit 25,000 metric tons of carbon-dioxide equivalent or more per year and are directly regulated by ARB for their GHG compliance obligation.

[2] Stats of 2006, ch. 488.

benefit of retail ratepayers (*See,* 17 California Code of Regulations (CCR) § 95893). These proceeds are referred to as GHG allowance proceeds. The natural gas utilities also incur costs from purchasing compliance instruments (allowances and offsets) and surrendering them to ARB. These costs are referred to as GHG compliance costs.[3]

In D.15-10-032, the Commission opted to return GHG allowance proceeds solely to the residential customers of the natural gas utilities.[4] The GHG allowance proceeds were to be distributed to residential customers as a credit disbursed in equal amounts to each customer account.[5] The distribution of GHG allowance proceeds was named the California Climate Credit.[6]

1.1. Rehearing of D.15-10-032

On November 23, 2016, the California Manufacturers & Technology Association (CMTA) applied for rehearing of D.15-10-032. Pacific Gas and Electric Company (PG&E) filed a response in support of the rehearing request. CMTA argued that D.15-10-032 erred by ordering that GHG allowance proceeds be returned only to residential customers instead of all retail ratepayers of the natural gas utility.

According to CMTA, GHG allowance proceeds are "rates" that must be distributed to all retail customers in accordance with Public Utilities Code (Pub. Util. Code) § 453.5,[7] not solely to residential customers. Furthermore, CMTA argues that

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[3] In this decision, any reference to GHG costs refers to GHG compliance costs, which are the costs borne by utility ratepayers to meet the GHG compliance obligation of the natural gas utility. There are also administrative and outreach costs associated with delivering GHG proceeds to customers. These costs are explicitly named as administrative and outreach costs and are small in amount.

[4] D.15-10-032 at 37.

[5] 17 CCR § 95893(d) provides for return of natural gas GHG proceeds on a non-volumetric basis.

[6] D.15-10-032 at 36.

[7] In this decision, references to sections of the Public Utilities Code will always contain three numbers before the decimal point, e.g. § 453.5, and references to the Cap-and-Trade regulation, Chapter 17 of the California Code of Regulations, will always contain five digits, e.g. § 95893.

Pub. Util., Code § 748.5, which limits GHG allowance proceeds to certain customer groups of *electric* ratepayers, does not apply to *natural gas* ratepayers.[8] Without the limitation in § 748.5, CMTA asserts, the Commission must order distribution to all retail ratepayers, and not only residential customers.

The Commission, in D.16-04-013 (*Order Granting Limited Rehearing of D.15-10-032*), stated that "No party provided legal support for that limitation [return of GHG allowance proceeds solely to residential customers], and D.15-10-032 does not discuss legal authority for requiring natural gas utilities to restrict disbursement of GHG credits solely to one class of retail ratepayer."[9] The Commission recognized that Title 17 of the California Code of Regulations provides: "Any allowances allocated to natural gas suppliers must be used exclusively for the benefit of retail ratepayers of each such natural gas supplier, consistent with the goals of AB 32, and may not be used for the benefit of entities or persons other than such ratepayers." (17 CCR, § 95893(a)).[10] As such, the Commission granted limited rehearing to reconsider the issue of disbursement of GHG allowance proceeds.

1.2. Natural Gas GHG Costs and Proceeds in Rates

Natural gas utilities' obligation to comply with the Cap-and-Trade Program began on January 1, 2015; therefore, GHG compliance costs that must be borne by the retail ratepayers of the natural gas utility began to accrue on the same date. D.15-10-032 was

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[8] Section 748.5 provides, in pertinent part "(a) [T]he commission shall require revenues, including any accrued interest, received by an electrical corporation as a result of the direct allocation of greenhouse gas allowances to electric utilities pursuant to subdivision (b) of Section 95890 of Title 17 of the California Code of Regulations to be credited directly to the *residential, small business, and emissions-intensive trade-exposed retail customers* of the electrical corporation." (Emphasis added.) No such statute exists with regard to proceeds received by a natural gas corporation.

[9] D.16-04-013 at 5.

[10] *Id.* at 4 (emphasis added).

issued late in 2015, but no GHG compliance costs have been included in retail rates to date. The Commission authorized each utility to forecast and reconcile its natural gas GHG compliance costs and allowance proceeds as part of an existing advice letter process. D.15-10-032 required the utilities to amortize 2015 forecast costs and allowance proceeds equally between 2016 and 2017 so that 50 percent of forecast 2015 costs would be included in 2016 rates and 50 percent would be included in 2017 rates. The decision initially ordered GHG costs and allowance proceeds to be included in rates commencing April 1, 2016.[11]

Decision 16-04-013, granting limited rehearing, vacated the order in D.15-10-032 that required the utilities to begin introducing costs into rates.[12] The Commission's Energy Division, by letter, also ordered the natural utilities to cease activities related to implementing the Climate Credit[13] and clarified that natural gas utilities should continue to hold GHG compliance costs and proceeds in balancing accounts while awaiting further direction from the Commission. In the autumn of 2016, Energy Division directed the natural gas utilities to file their advice letters with two different illustrative scenarios showing the impact of amortizing both 2015 and 2016 GHG costs into rates.

1.3. Procedural Background

On December 16, 2016, the assigned Administrative Law Judge (ALJ) in this proceeding issued a ruling setting a prehearing conference (PHC), presenting a proposed scope and requesting prehearing conference statements. CMTA, Southern California Gas Company and San Diego Gas & Electric Company (SoCalGas and SDG&E, jointly named Sempra), Southwest Gas Company, PG&E and the Office of Ratepayer Advocates (ORA) filed PHC statements on January 5, 2017. CMTA, Sempra and Southwest Gas

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[11] D.15-12-032 at 20-21.

[12] D.16-04-013, Ordering Paragraph 4.

filed replies on January 9, 2017. On January 11, 2017, the assigned ALJ convened a PHC to determine parties, discuss the scope, schedule, and other procedural matters. At the PHC, the assigned ALJ granted party status to The Utility Reform Network (TURN) and California State University (CSU).

On January 27, 2017, the assigned Commissioner and ALJ issued the Scoping Memo and Ruling of the Assigned Commissioner and Administrative Law Judge (Scoping Memo) setting the scope and schedule of this proceeding to address rehearing. Pursuant to the direction of the Scoping Memo, PG&E, Sempra, Southwest Gas Company, ORA, CMTA and CSU filed concurrent opening comments on the issues ruled within the scope on February 24, 2017. PG&E, Sempra, Southwest Gas Company, ORA, CMTA and CSU filed concurrent reply comments on March 10, 2017.[14]

On July 26, 2017, the assigned ALJ issued a ruling incorporating into the record a proposed GHG allowance proceed allocation methodology developed by the Commission's Energy Division. PG&E, Sempra, CMTA, CSU, Southwest Gas, and ARB[15] filed comments on August 16, 2017.

2. Issues Before the Commission

D.16-04-013 determined that rehearing must consider the following issues:

1) The specific law(s) authorizing disbursement of natural greenhouse gas GHG allowance proceeds to gas utility ratepayers;

2) The classes of gas utility ratepayers that are authorized or required by said law(s) to receive natural gas greenhouse gas allowance proceeds; and

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[13] *See* D.15-12-032 at 35 for a discussion of the natural gas Climate Credit.

[14] TURN did not file opening or reply comments.

[15] Concurrently with its comments, ARB moved for party status. The assigned ALJ granted the motion on August 18, 2017.

3) The methodologies and procedures to be used by each gas utility subject to Cap-and-Trade regulations for calculating and disbursing natural gas GHG allowance proceeds to the appropriate retail ratepayers.

The Scoping Memo requested comment on the issues set forth below. The issues broadly divide into two categories: legal authority and methodology of return, including distribution of GHG revenues and inclusion of GHG compliance costs in rates. Legal authority is addressed in Section 3, below. In Section 4 this decision adopts a methodology to disburse GHG allowance proceeds to natural gas retail ratepayers on a going forward basis. Finally, in Section 5, this decision adopts a methodology for allocating GHG costs and distributing GHG allowance proceeds accrued from January 1, 2015 to the December 31, 2017. Issues in the scope of this proceeding addressing rehearing are:

1. How should the Commission reconcile the following two provisions?
   a. 17 CCR § 95893(d), which prohibits the return of GHG proceeds to natural gas ratepayers on a volumetric basis; and
   b. Pub. Util. Code § 453.5, which requires that refunds be returned to utility customers on an "equitable pro rata basis" defined as "in proportion to the amount originally paid for the utility service involved, or in proportion to the amount of such utility service actually received."
2. What other specific laws and regulations (in addition to those stated above) must the Commission consider in distributing natural gas GHG proceeds to ratepayers?
3. What classes of natural gas utility ratepayers are "retail ratepayers" eligible to benefit from GHG proceeds, and how should those customers be identified (e.g., by rate class)?
4. If the Commission concludes that 17 CCR, § 95893(d) prohibits a volumetric return of GHG proceeds to natural gas ratepayers, how should the Commission determine the appropriate allocation of GHG proceeds for each eligible customer class and each individual customer within that class?
5. D.15-10-032 directed that GHG costs would be included in rates commencing April 1, 2016, with 2015 costs to be amortized equally

across 2016 and 2017. Given that GHG costs and proceeds are as of yet not included in rates:

a. When should GHG costs and allowance proceeds be included in rates on a going forward basis?

b. How should accruing GHG costs and proceeds be amortized? Are the informational scenarios included in the utilities' advice letter filings[16] the appropriate scenarios or should the Commission consider other scenarios?

c. What goals or issues should the Commission consider in amortizing GHG costs and proceeds?

6. Any other issue presented in the decision granting rehearing of D.15-10-032.

3. Legal Authority Governing Disbursement of Natural Gas Greenhouse Gas Allowance Proceeds

3.1. Pub. Util. Code § 453.5

At the heart of CMTA's application for rehearing is the applicability of Pub. Util. Code § 453.5. In D.15-10-032, the Commission determined that "given the potential allowance proceeds available, it is reasonable to limit the natural gas California Climate Credit to residential customers. … by returning GHG allowance proceeds to residential customers, we reduce the potential adverse effects of Cap-and-Trade on low-income households."[17] CMTA argues that the Commission erred in allocating GHG allowance proceeds only to residential customers, in violation of § 453.5.[18]

Pub. Util. Code § 453.5 states, in relevant part:

> Whenever the commission orders rate refunds to be distributed, the commission shall require public utilities to pay refunds to all

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[16] Contained in Advice Letters 5054 (SoCalGas), 2523-G (SDG&E), 3780-G (PG&E), and 1023 (Southwest Gas).

[17] D.15-10-032 at 37.

[18] 17 CCR 95893 *et seq*.

> current utility customers…on an equitable pro rata basis without regard as to whether or not the customer is classifiable as a residential or commercial tenant, landlord, homeowner, business, industrial, educational, governmental, nonprofit, agricultural, or any other type of entity.
>
> For the purposes of this section, "equitable pro rata basis" shall mean in proportion to the amount originally paid for the utility service involved, or in proportion to the amount of such utility service actually received. (Emphasis added.)

CMTA, in its Application for Rehearing, states:

> The return of [California Climate Credit] proceeds to ratepayers is subject to the same process and legal requirements as the return of other ratepayer funds held by utilities for eventual return to their ratepayers. Therefore, whether characterized by the Commission as a refund or "bill credit,"[19] the return of the allowance proceeds to ratepayers must comply with Pub. Util. Code § 453.5.[20]

Stated differently, CMTA argues that GHG allowance proceeds are "rate refunds" under § 453.5 and that case law interpreting § 453.5 requires the Commission to distribute such "refunds" to all natural gas customers "on an equitable pro rata basis." Because the natural gas-related GHG revenues are not subject to the same limiting statute as electricity-related revenues (§ 748.5), CMTA contends, the revenues must be distributed not only to residential customers but also to commercial ratepayers.[21]

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[19] D.15-10-032 Conclusion of Law (COL) 6.

[20] CMTA Application for Rehearing, November 23, 2015, at 2-3.

[21] *See California Mfrs. Assn. v. Public Utilities Com*. (1979) 24 Cal.3d 836, 847. CMTA also cites to *Assembly v. Public Util. Com*. (1995) 12 Cal.4th87 [48 Cal. Rptr. 2d 54].

3.1.1. Conflict Between Pub. Util. Code § 453.5 and 17 CCR § 95893(d)

The threshold issue before the Commission is whether GHG revenues are "rate refunds" covered by the requirement of § 453.5. If they are not "rate refunds," as we find here, the Commission need not reconcile any "conflict" between § 453.5 and 17 CCR § 95893(d), which requires non-volumetric distribution of proceeds from freely allocated Cap-and-Trade allowances. That is, the Commission must determine whether the return of allowance proceeds to ratepayers is subject to both the statute and the ARB regulation. If this return is not a "rate refund" under § 453.5, any possible conflict between the statute and the regulation will be moot.

In the Scoping Memo, the Assigned Commissioner asked parties for input on the interaction between § 453.5 and 17 CCR § 95893(d). The requirement of § 453.5 to return refunds on an "equitable pro rata basis" may be in conflict with 17 CCR § 95893(d), which requires GHG allowance proceeds be returned on a non-volumetric basis (not in direct proportion to costs[22] incurred). As such, most parties filed comments based on the possibility that the Commission might determine that GHG revenues are "rate refunds." On that basis, parties offered proposals for the distribution of GHG allowance proceeds that comport with both § 453.5 and the ARB regulation.

ORA, however, in its reply comments to the Scoping Memo, questioned whether GHG proceeds are indeed refunds under § 453.5. ORA states "GHG proceeds appear less like supplier refunds or utility overcharges and more like proceeds from the sale of sulfur dioxide emissions credits, which the Commission distributed notwithstanding Section 453.5."[23] ORA cites Application (A.) 06-12-022 (Application of Southern

[22] GHG costs are incurred based on usage of natural gas. Thus, individual GHG costs are dependent entirely on the amount of natural gas used.

[23] ORA March 10, 2017 Reply Comments in Response to Scoping Memo.

California Edison Company Regarding the distribution of SO2 Allowance Sale Proceeds Related to the Suspended Operation of Mohave Generation Station), where the Commission determined that, through application of existing case law, § 453.5 did not govern.[24] In other words, ORA asserts there is no conflict between § 453.5 and § 95893(d) because § 453.5 does not apply. GHG allowance proceeds and sulfur dioxide proceeds share many similarities in how they are monetized and distributed to ratepayers, as discussed later in this decision.

As interpreted by the California Supreme Court in *California Manufacturers Association v. Public Utilities Commission*, 24 Cal.3d 836 (1979) (*California Mfrs. Assn*.) and *Assembly v. Public Utilities Commission*, 12 Cal.4th 87 (1995) (*Assembly*), a rate refund under § 453.5 has three specific characteristics. Thus, while *California Mfrs. Assn.* states that the term "rate refund," used in § 453.5, "did not exclude from the operation of § 453.5 other types of refund monies that constitute rate refunds [from those at issue in the case]," the amounts subject to refund must be "rate refunds," and not all monies qualify. Rather, the proceeds must meet the following characteristics:

1. The funds to be refunded were previously collected in rates from ratepayers. In *California Mfrs. Assn*., the California utilities had collected in rates on natural gas provided to their industrial customers based on the charges the utilities paid to their natural gas suppliers (24 Cal.3d at 839-40.) In *Assembly*, the telephone utility had collected in rates from retail telephone customers' monies that were used in part to fund research and development of cellular telephone technology. (12 Cal.4th at 91).
2. The funds were previously ordered to be refunded to customers by a regulatory agency. In *California Mfrs. Assn*., the Commission had authorized the gas rates on the condition that, if the Federal Power Commission (FPC)[25] concluded that gas suppliers had overcharged the

[24] *See* Administrative Law Judge's Ruling on Treatment of Proceeds from Sulfur Dioxide Allowance Sales by Southern California Edison Company, April 7, 2011 at 16-20.
[25] This is the predecessor agency to the present Federal Energy Regulatory Commission.

utilities, the overcharges would be refunded to utility customers. The FPC did find that supplier rates were excessive and required that the gas suppliers rebate the excess charges to the utilities. (24 Cal.3d 840). In *Assembly*, the Commission determined that telephone company ratepayers were entitled to refunds for certain cellular technology research and development charges that the Federal Communications Commission (FCC) had earlier found ratepayers should not have funded. (12 Cal.4th at 91-92).

3. The refunds are to be made, to the extent practicable, to the customers who paid the excessive rates. In *California Mfrs. Assn*., the California Supreme Court held that the Commission's assignment of the gas overcharge rebates to balancing accounts for the affected utilities was not consistent with that requirement. (24 Cal.3d at 848). In *Assembly*, the California Supreme Court agreed with the Commission that it was impractical to try to make refunds to prior customers, but found that the Commission was required to refund the entire amount of principal and interest to current customers, rather than assigning part of the interest to another public purpose. (12Cal.4th at 100-101).

As in the case of sulfur dioxide allowance proceeds in Application 06-12-022, none of the three central characteristics recognized by the California Supreme Court is present with regards to GHG allowance proceeds.

3.1.1.1. California Mfrs. Assn. First Characteristic

First, the funds must have been previously collected from ratepayers. This first characteristic is not present here. Natural gas utility ratepayers did not previously pay excessive rates for GHG allowances because no ratepayer paid for the allowances at all. Under the Cap-and-Trade regulations, GHG allowances are freely and directly allocated to each natural gas utility.[26] These directly allocated allowances are not paid for by the natural gas utilities or their ratepayers. Thus, the GHG proceeds are distinguishable from funds collected in rates. GHG allowance proceeds are generated when the utility

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[26] Sections 95870(f), 95890(f), and 95893 of 17 CCR provide rules related to the direct allocation of allowances to natural gas utilities.

consigns its directly allocated allowances to auction as required by the Cap-and-Trade regulation. The natural gas utilities are required to sell a portion of their directly allocated allowances in an amount that increases by five percent each year.[27] The amount of proceeds is determined by the market clearing price for allowances sold at a particular auction. The amount of allowance proceeds to be distributed to ratepayers is determined separately from any GHG compliance costs that utility customers pay in rates. As described earlier, utilities participate in the Cap-and-Trade program and must purchase allowances to cover their pollution compliance obligation, as required by ARB. The cost of purchasing allowances is passed through to ratepayers, but the costs are completely separate from the proceeds of selling directly allocated free allowances. That is to say, there is no direct relationship between GHG costs collected from an individual customer for their natural gas usage and the allowance proceeds available for disbursement to that customer.

The funds discussed in *California Mfrs. Assn.* and *Assembly* looked nothing like the GHG proceeds at issue here. In *California Mfrs. Assn*., the refunds to ratepayers arose from natural gas supplier rate increases to the utilities that were later determined to be "excessive," requiring rebates to the utilities that would then be "refunded" to the ratepayers.[28] Natural gas costs had increased and PG&E and SoCalGas requested rate increases with the Commission to offset the anticipated increase in costs during the ensuing year.[29] The Commission approved tariffs to pass through to ratepayers the increased costs provided that any amounts reimbursed to the utilities would be refunded to utility customers.[30] The court in *California Mfrs. Assn*. looked to the legislative

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[27] Table 9-4, Section 95893 of 17 CCR.

[28] *California Manufacturers Association v. Public Utilities Commission*, 24 Cal.3d at 840.

[29] *Id.*

[30] *Id*.

history and language of § 453.5 in determining that the term "rate refunds" pertains to "specific amounts held by utilities as rebates from their suppliers and earmarked for customer 'refunds' by prior commission orders and utility tariffs."[31]

In *Assembly*, the FCC in 1982 had ordered AT&T to reimburse all of the Bell Operating Companies or "Baby Bells" (including Pacific Bell) for certain cellular research and development expenses, explicitly directing that all expenses incurred prior to June 30, 1982, "must be reimbursed to ratepayers" who had absorbed these costs through the rates they had been charged.[32] Pacific Bell (one of the Baby Bells) received its funds from AT&T, but rather than passing them to ratepayers, the company "pocketed" the refund. This Commission later ordered Pacific Bell to refund the monies to customers.[33]

The two court cases are distinguishable from the facts at issue in this proceeding and demonstrate that GHG allowance revenues are not rate refunds under § 453.5. Unlike the rates in *California Mfrs. Assn*. and *Assembly*, in the case of GHG allowance proceeds, ratepayers are not receiving refunds for expenses that they have already incurred or overcharges for which they were billed. Ratepayers have not paid at all for freely allocated GHG allowances. Rather, ratepayers are receiving part of the proceeds from the sale of directly and freely allocated GHG emission credits (allowances), which are not factored into rates.

Only the compliance instruments paid for by the utility, that is allowances that are purchased by the utility for the amount of carbon dioxide equivalent emitted by that utility, are reflected in GHG costs that are put into rates. By contrast, freely allocated allowances have no cost; therefore, the proceeds generated from their sale are not rate

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[31] *Id*. at 845.

[32] *Assembly v. Public Utilities Commission*, 12 Cal.4th 87 (1995).

[33] *Id.*

refunds. Therefore, GHG allowance proceeds from the consignment and sale of freely allocated allowances fail to meet the first characteristic under *California Mfrs. Assn.* GHG allowance proceeds are not funds that were previously collected in rates from ratepayers.

3.1.1.2. California Mfrs. Assn. Second Characteristic

Second, the funds must have been ordered to be refunded to customers by a regulatory agency. Neither this Commission nor any other regulatory body has previously (prior to enactment of 17 CCR § 95893 *et seq.)* required that GHG allowance proceeds be refunded to customers. Likewise, the Commission has not found in this proceeding that a "refund" of GHG allowance proceeds to natural gas utility ratepayers pursuant to § 453.5 is required or that § 453.5 applies at all. While § 95893, a regulation promulgated by ARB, states that GHG allowance proceeds must be "used exclusively for the benefit of [natural gas utility] retail ratepayers…consistent with the goals of AB 32, and may not be used for the benefit of entities other than such ratepayers," and "for the protection of natural gas ratepayers," nowhere in the regulation does it state that GHG allowance proceeds are a *rate refund.* Furthermore, § 95893 expressly gives the Commission the authority to distribute GHG allowance proceeds as it sees fit so long as that distribution is consistent with ARB requirements.

Given that the express intent of AB 32 is to reduce GHG emissions, returning proceeds to ratepayers volumetrically would undermine the goal of AB 32, contravene established Commission policy regarding preservation of the carbon price signal, violate 17 CCR § 95893(d), and result in an overall contradictory situation where customers receive conflicting incentives regarding natural gas usage. (This is discussed more fully in Section 4.) GHG proceeds do not meet the second characteristic under *California Mfrs. Assn*; proceeds are not funds that were previously ordered to be refunded to customers by a regulatory agency.

3.1.1.3. California Mfrs. Assn. Third Characteristic

Third, refunds are to be made, to the extent practicable, to the customers who paid the excessive rates This characteristic is also inapplicable. Refunds cannot be made to customers who paid "excessive rates" because there were no charges in rates for the freely allocated GHG allowances that are consigned to auction resulting in GHG proceeds. As stated above, allowances were distributed freely to the natural gas utilities under the structure of the ARB regulations promulgating AB 32. No retail ratepayer of a natural gas utility paid any rate (excessive or otherwise) for freely allocated allowances; therefore, no refund is warranted.

3.1.1.4. Conclusion

Therefore, the Commission concludes, consistent with the interpretation of the California Supreme Court, that § 453.5 does not apply to the distribution of GHG allowance proceeds to the retail ratepayers of natural gas utilities. GHG allowance proceeds are not rate refunds under the code section. Therefore, the Commission is bound only by the ARB regulation in determining the appropriate distribution of GHG allowance proceeds. There are no other express restrictions in the Public Utilities Code on the Commission's authority to determine how to distribute GHG allowance proceeds. Because § 453.5 does not apply, the Commission need not resolve any conflict between § 453.5 and 17 CCR § 95893(d); the regulation governs.

3.2. 17 CCR 95893(d)(3): Method of Return

As stated above, because § 453.5 is inapplicable to the distribution of GHG allowance proceeds, and therefore there is no conflict between direction given in the Public Utilities Code and that contained in the ARB regulation, the adopted allocation methodology must comport with the ARB regulation. In 17 CCR 95893(d)(3), ARB requires that "any revenue returned to ratepayers must be done on a non-volumetric basis."

In comments to the Scoping Memo, parties provided diverse proposals on how to distribute the GHG proceeds to natural gas customers. CMTA, PG&E, and CSU, all of whom argue that § 453.5 applies, propose that allowance proceeds be distributed in proportion to GHG costs incurred, a volumetric return, but that the amount of proceeds for distribution be collected over time and returned on some time interval, such as semi-annually. Stated differently, even though the amount of GHG proceeds available will not directly equal the amount of GHG costs incurred, since freely allocated allowances sold at auction do not equate to allowances purchased to meet a utility's compliance obligation, CMTA, PG&E and CSU propose that proceeds be distributed to offset compliance costs incurred.

The Commission finds that any allocation of GHG allowance proceeds that relies directly upon the GHG costs borne by each individual customer and returns proceeds in direct relationship to those costs would violate the prohibition of volumetric distributions under § 95893(d)(3). The violation occurs even if proceeds are distributed at a different time than costs were incurred or are aggregated, e.g. if proceeds are returned semi-annually. Section 95893(d)(3) is explicit on this issue: "Any revenue returned to ratepayers must be done in a *non-volumetric* manner." (Emphasis added.)

Not only does volumetric distribution violate § 95893(d)(3), it also contravenes the legislative directive in AB 32 to ameliorate GHG emissions. *See, e.g.,* Cal. Health & Safety Code § 38560 ("The state board shall adopt rules and regulations in an open public process to achieve the *maximum technologically feasible and cost-effective greenhouse gas emission reductions* from sources or categories of sources, subject to the criteria and schedules set forth in this part." (Emphasis added.)

The legislative history and genesis of AB 32 demonstrate that distributing revenues volumetrically is counter to the intent and goals of that statute. The California

Legislature passed AB 32 in response to the "serious threat" global warming poses to the "economic well-being, public health, natural resources, and the environment of California."[34] To combat these issues, the legislature tasked ARB with developing and implementing regulations to adopt limits and reduce GHG emissions to 1990 levels by 2020.[35]

In this directive, the Legislature outlines nine policy goals that the ARB must consider when designing the regulations.[36] These goals include minimizing costs and maximizing benefits to California; encouraging and crediting early voluntary action to reduce GHG emissions; considering the overall societal benefits for the economy, environment, and public health; and ensuring that low-income communities are not disproportionally impacted.[37] The plain language of the mandated directive and the legislative history indicate that the Legislature intended for the ARB to consider these goals in crafting and implementing policy and regulations, such as the distribution of GHG allowance revenues.

Distributing revenues volumetrically contravenes the policy objectives of AB 32 because it has the effect of encouraging consumption by rewarding the larger consumers of natural gas. This is problematic because it will have negative exponential impacts on disadvantaged communities, cause environmental degradation, and raise public health costs because of the increase (or lack of reduction) in GHG emissions and the associated respiratory health impacts from pollution. The Commission, in avoiding a volumetric distribution wherever possible to electric customers similarly found that "to create a GHG price signal only to offset it through the [volumetric] allocation of allowances would

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[34] Stats. of 2006, ch. 488 (codified at Cal Health & Safety Code § 38501(a)).

[35] Cal Health & Safety Code § 38550.

[36] Cal Health & Safety Code § 38562(b).

[37] Cal Health & Safety Code § 38562(b).

short-circuit the basic economic functioning of this process by preventing producers, and ultimately consumers, from seeing that price signal. This would negate the point of the Cap-and-Trade policy.[38]

Thus, the Commission is not free to distribute GHG revenues to natural gas ratepayers on a volumetric, or usage, basis nor would it choose to do so, except where necessary, from a policy standpoint. To the extent the Commission has returned GHG allowance proceeds on a volumetric basis previously (see, e.g. return of GHG allowance proceeds to small business electric customers,) it has done so as a last resort and as a temporary means of transition assistance towards inclusion of a carbon price signal in rates.[39]

3.3. Natural Gas Ratepayers Eligible to Receive GHG Allowance Proceeds

In D.15-10-032, the Commission elected to return GHG allowance revenue only to residential natural gas ratepayers stating "[g]iven the potential allowance proceeds available, it is reasonable to limit the natural gas California Credit to residential customers."[40] Relying on the governing authority in 17 CCR § 95893, in D.16-04-013, the Commission found that D.15-10-032 lacked sufficient legal basis to allocate GHG allowance proceeds solely to residential customers.

As found earlier, § 453.5 does not apply to the distribution of GHG allowance proceeds because there is no "rate refund." Therefore, the sole governing authority is 17 CCR § 95893 *et seq*. The fundamental question that must be answered is whether

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[38] D.12-12-033 at 63.

[39] *See* D.12-12-033 at 104-107 and D.13-12-002. Note also that the volumetric prohibition does not apply to the allocation of GHG proceeds to electric customers.

[40] D.15-10-032 at 37.

17 CCR § 95893(a) affords the Commission the legal authority to return allowance proceeds solely to residential ratepayers. Chapter 17 CCR § 95893(a) states:

> Any allowances allocated to natural gas suppliers must be used exclusively for the benefit of retail ratepayers of each such natural gas supplier, consistent with the goals of AB 32, and may not be used for the benefit of entities or persons other than such ratepayers.[41]

When previously allocating allowance proceeds to electric utility ratepayers, the Commission limited distribution to residential, small business and industries requiring Industry Assistance.[42] There, unlike in the case of natural gas ratepayers, the Commission was governed by Pub. Util. Code § 748.5, which required distribution of GHG allowance proceeds to those specific customer groups. The Commission, in construing § 748.5, determined it to be limiting, meaning the Commission was prohibited from distributing GHG allowance proceeds to any customer classes not explicitly named in the statute.[43] Absent an equivalent statute for natural gas, the Commission, in D.15-10-032, had to determine which groups of ratepayers should receive GHG allowance proceeds.

In D.12-12-033, the Commission stated a clear policy position that, aside from those industries requiring Industry Assistance, it was most appropriate to return most GHG allowance proceeds to residential ratepayers while preserving the carbon price signal.[44] The Commission stated "we believe that preservation of the carbon price signal

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[41] D.16-04-013 at 4.

[42] *See* D.12-12-033 at 17 for a discussion on the definition of Industry Assistance and characteristics of Emissions-Intensive and Trade-Exposed industries.

[43] *Id.* at 72.

[44] D.12-12-033 at 59 states: "…[i]n considering various ways of using the allowance revenues, we stray from this fundamental objective only in extenuating circumstances where preserving the carbon price signal is impractical or otherwise infeasible. D.12-12-033 at 69 states: "To create a GHG price signal only to offset it through the allocation of allowances would short-circuit the

Footnote continued on next page

is a high priority objective."[45] In Finding of Fact 30, the Commission further found that "[i]n most cases, increased costs of electricity production as a result of the Cap-and-Trade program will ultimately be passed through to the end user of electricity – the retail electricity ratepayer– resulting in higher retail electricity rates." The Commission, in discussion of the distribution of allowance proceeds to small business customers, also stated:[46]

> Though we are directed to return allowance revenue to small businesses, we do not believe the presence of carbon pricing in electricity rates for small businesses will necessarily result in emissions or economic leakage, excluding those businesses that operate in industries eligible for Industry Assistance. The presence of a carbon price in electricity rates, and the reflection of that cost in the price of goods and services, provides a critical incentive to shift toward economic activities that result in fewer GHG emissions. It is our intent that small businesses should see a carbon price signal in their electricity rates.

The Commission adopted a small business distribution methodology for electric customers whereby small businesses received allowance proceeds volumetrically (citing a desire to mirror as closely as possible the transition assistance provided to entities receiving Industry Assistance) on a declining trajectory over time.[47]

Although not explicitly stated in D.15-10-032, the Commission, by returning GHG allowance proceeds solely to residential customers, upheld its previously stated finding in D.12-12-033 that Cap-and-Trade costs will ultimately be passed through to the

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basic economic functioning of this process by preventing producers, and ultimately consumers, from seeing that price signal. This would negate the point of the Cap-and-Trade policy."

[45] *Id*. at 59.

[46] *Id.* at 105.

[47] *Id.* at 105-106.

end user of, in this case, natural gas, resulting in higher natural gas rates. The allocation methodology also conformed to the Commission's rationale in regards to electric customers, which equally applies to natural gas customers, that providing electric allowance proceeds to residential customers "is more equitable and comports with the idea of common ownership of the atmosphere given that residential ratepayers will ultimately bear the increased costs as a result of the Cap-and-Trade program."[48]

While the Commission has a strong policy rationale to return natural gas GHG allowance proceeds solely to residential customers, it is unclear whether the Commission has the legal authority to support such an allocation. Section 95893(a) requires that GHG allowance proceeds be used "exclusively for the benefit of retail ratepayers of each such natural gas supplier." Section 95893(d)(2), however, states that "proceeds obtained from the monetization of allowances directly allocated to public utility gas corporations shall be subject to any limitations imposed by the California Public Utilities Commission…." It is not readily apparent whether § 95893(d)(2) provides the Commission sufficient legal authority to allocate allowance proceeds to a subset of retail ratepayers absent a qualifier to that effect in § 95893(a), even if to do so could presumably be to the benefit of all retail ratepayers by freeing up monetary resources of those who will ultimately be unable to pass on costs associated with the Cap-and-Trade program.[49]

When asked in the Scoping Memo which classes of natural gas utility ratepayers are "retail ratepayers" eligible to benefit from GHG allowance proceeds, parties universally agreed that eligible ratepayers are those who are required to pay for natural gas GHG compliance costs pursuant to Ordering Paragraph 11 of D.15-10-032, that is all

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[48] D.12-12-033, at 69.

[49] D.12-12-033 at 109 states "the revenue returned to households will largely, if not entirely, flow back into the economy, helping to mitigate the overall impacts of the program on demand for the goods and services those businesses provide."

core and non-core customers, excluding exempt customers.[50] What is unclear is whether eligibility to receive allowance proceeds under § 95893(a) equates to a requirement to receive GHG allowance proceeds.

The conservative approach the Commission will take is to set aside at this time its determination to return GHG allowance proceeds solely to residential ratepayers of the natural gas utilities. GHG allowance proceeds shall be returned, as described below to all eligible natural gas ratepayers, as eligible ratepayers are defined in D.15-10-032. The Commission welcomes clarification on the extent of its authority from ARB for program years beyond 2020. Because § 453.5 does not govern, the Commission, in applying its discretion under § 95893(d)(2) is not required to return GHG allowance proceeds to each customer class (e.g. residential, core) in proportion to GHG compliance costs incurred by that class.

3.3.1. Identification of Eligible Ratepayers

In the Scoping Memo, in addition to requesting feedback on the ratepayers that are eligible to receive GHG allowance proceeds under § 95893(a), the assigned Commissioner also sought feedback on how to identify eligible customers. In comments, Sempra stated that eligible customers could be identified as all end-use customers that do not receive a "Cap-and-Trade Exemption" line-item credit on their natural gas bills. The Commission, in D.15-10-032, adopted a definition for exempt customers as stated above, and it also adopted a methodology to identify those customers. While the method of identification proposed by Sempra is reasonable and should be used as a final check to

[50] In D.15-10-032 beginning at page 27, the Commission defined eligible customers to be those that are not deemed to be covered entities by ARB (end-use customers who emit 25,000 metric tons of carbon-dioxide equivalent or more per year and are directly regulated by ARB for their GHG compliance obligation).

ensure that exempt customers do not receive GHG allowance proceeds in error, there is no reason to disturb the identification methods adopted in D.15-10-032.

ORA, interpreting the question differently, recommends that the Commission divide eligible retail customers into the following categories: core residential, core commercial and industrial, and non-core commercial and industrial. The Commission will adopt two different GHG allowance proceed allocation methodologies, one applicable to core residential customers and the other applicable to all core and non-core commercial and industrial customers. How those customers will be specifically identified by each utility will be the subject of advice letter filings required of the utilities following issuance of this decision.

4. Adopted Methodology to Return GHG Proceeds

In D.15-10-032, the Commission decided to return GHG allowance proceeds solely to residential customers on an equal per-account, non-volumetric basis. In the Scoping Memo for this proceeding addressing rehearing of D.15-10-032, the Assigned Commissioner and ALJ sought input from parties on how to distribute GHG allowance proceeds to ratepayer groups beyond residential ratepayers, especially if the Commission finds, as it has above, that proceeds may not be distributed in a volumetric manner. A summary of stakeholder proposals follows below.

In addition, on July 26, 2017, the assigned ALJ in this proceeding issued a ruling seeking comment from parties on a rank allocation methodology for the allocation of GHG proceeds developed by Energy Division staff. An overview of the rank allocation methodology, as well as party comments on the methodology, follows the stakeholder proposals summary below.

4.1. Summary of Stakeholder Proposals

As stated earlier in this decision, in comments to the Scoping Memo, all parties propose returning allowance proceeds to all eligible core and non-core customers, excluding exempt customers. No party suggested the Commission exclude any customer class from receiving proceeds, and the Commission found above that it will take a conservative approach to return allowance proceeds to all eligible customers at this time. Parties provided a range of options for how proceeds should be distributed, with some parties providing multiple options.

Parties' proposals fall roughly into three categories: 1) those that allocate individual customers a volumetric share of the proceeds; 2) those that blend together both a volumetric calculation and a flat per-customer distribution; and 3) those that allocate proceeds to certain classes using a specific factor or policy-based approach. Parties' proposals are summarized below.

4.1.1. Volumetric Proposals

In opening comments, CMTA, CSU, and PG&E each recommend what amounts to a volumetric allocation methodology. CMTA specifically recommends proceeds be returned in "proportion to the amount originally paid for the utility service involved, or in proportion to the amount of such utility service actually received," citing Pub. Util. Code § 453.5. PG&E recommends that proceeds be returned "on a volumetric, pro-rata basis." CSU, in a slightly more specific approach, recommends returning proceeds "based on the customer's share of the total volume of gas consumed by eligible customers during the period corresponding to the vintage of the auctioned allowances."

The underlying premise of each of these proposals is that each individual customer should receive a share of the proceeds based on their natural gas usage or share of compliance cost, on a cents-per-therm basis. The proposals generally recommend that GHG monthly proceeds be accrued and returned on a semi-annual or quarterly basis, so as to avoid a direct volumetric return based on usage each month.

In Reply Comments, Sempra suggests that CSU's quarterly return would be burdensome and could provide market sensitive information that may be a violation of the Cap-and-Trade regulations.[51] ORA states that a volumetric approach would not preserve the carbon price signal in rates and would not mitigate adverse impacts on low income customers.

4.1.2. Hybrid Proposals

The second broad category of proposals is those that contain volumetric and non-volumetric elements. For example, one of the allocation options suggested by ORA is that the Commission could allocate "GHG allowance proceeds proportionate to the usage of each customer class, and distribut[e] the allocated amounts equally between customers within each class."[52] ORA's rationale for this option is that this blended approach incorporates and satisfies the requirements of both Pub. Util. Code § 453.5 and 17 CCR § 95893(d). Sempra also considered a similar approach but rejected it as not satisfying the requirements of the code section and the regulation as well as balancing the ratepayer impact to low-income residential customers.[53]

Southwest Gas recommends a hybrid approach whereby all customers (both residential and non-residential) receive proceeds on an equal, per customer basis (non-volumetric), To calculate the amount of proceeds available to each customer class, Southwest Gas suggests that the proceeds be divided between residential and non-residential classes based on the relative number of ratepayers in these groups. Residential ratepayers would then receive proceeds by dividing the amount of proceeds available by the total number of residential ratepayers, resulting in an equal, per-customer allocation. Southwest Gas recommends that the remaining proceeds be divided among the "non-residential customer classes based on each class' percentage of total throughput,

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[51] Sempra Reply Comments at 3.

[52] ORA Opening Comments at 6.

[53] Sempra Opening Comments at 4.

and then distributed equally to the individual customers within each class."[54] Southwest Gas gives no rationale for this approach, other than asserting it would satisfy both Pub. Util. Code § 453.5 and 17 CCR § 95893(d).

In Reply Comments, ORA states that Southwest Gas' approach would preserve the carbon price signal but it is unclear whether the proposal would mitigate adverse impacts to low-income customers. CSU as discussed elsewhere, is wary of any accounting inaccuracies that could result through implementation of Southwest Gas' proposal.

4.1.3. Factor-Based Proposals

This category includes suggestions from Sempra and ORA. Essentially, these proposals suggest some way of dividing proceeds other than a volumetric or hybrid allocation, such as by offsetting the costs of a specific class, or generally allocating proceeds with the goal of achieving a particular stated purpose. For example, Sempra suggests creating three separate Climate Credits. To achieve this, Sempra first suggests an allocation methodology based on offsetting compliance costs for the average residential ratepayer. To do this, "each utility should calculate the annual cost of GHG compliance for their average residential customer. The average cost of GHG compliance should be multiplied by the total number of residential customers. The Commission should allocate a percentage of each utility's total GHG proceeds to residential customers based on this amount."[55] Sempra suggests that the total proceeds available for residential ratepayers be divided evenly across residential customer accounts.

Sempra estimates this would result in Climate Credits that are slightly higher than the average residential customer costs ($12.51 annual average compliance cost for

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[54] Southwest Gas Opening Comments, page 2.

[55] Sempra Opening Comments at 4.

SoCalGas residential ratepayers, and an estimated $12.93 Climate Credit; $8.61 average compliance cost for SDG&E with a credit of $10.27.) Sempra notes, however, that this amount is still less than residential ratepayers would have received under the prior methodology established by D.15-10-032, and allows for other classes to receive proceeds.

Next, Sempra recommends that the residual proceeds be allocated among core and non-core customers, with a distinction that non-core customers "who use less than 249,600 therms per year will be classified as core customers for the purposes of the California Climate Credit, to ensure smaller users do not receive a windfall of allowance revenues."[56] Sempra suggests allocating "dollars between non-residential core and noncore customers based on relative throughput for these two categories."[57] The relative amount of proceeds available for non-core and core customers would then be divided evenly among customers in those classes.

Sempra notes that this option could be used if all volumetric calculation methods are avoided; in that case, the remaining 15 percent for nonresidential could be divided evenly among remaining customers "While this is a better result for non-residential core customers than in SoCalGas' and SDG&E's three-credit proposal, the allocation of GHG proceeds is fairly insignificant for larger noncore customers relative to the amount they will pay for GHG compliance costs."

ORA also suggests an option in this category. ORA recommends the Commission use an "allocation factor to distribute the GHG allowance proceeds between residential, small business, and commercial and industrial customers. … the Commission could allocate 80 percent of the GHG allowance proceeds to core residential and small-business customers, and distribute the proceeds by dividing them equally by the number of

[56] *Id*. at 5.

customers in these two classes. The remaining 20 percent of GHG proceeds could be allocated between core commercial and industrial and non-core commercial and industrial customers, as well as any additional non-exempt customers, and distributed in equal proportions to the customers in these classes."[58] ORA's justification for this type of approach is to "reduce the potential adverse impacts of Cap-and-Trade on residential customers, especially low-income customers, as well as small business customers."[59]

In Reply Comments, ORA recommends that the Commission adopt Sempra's recommended proposal. PG&E argues that both ORA and Sempra's approaches violate § 453.5 and are therefore unworkable. CSU is concerned that Sempra's methodology introduces unnecessary accounting complications and strays from the requirements of §453.5. CMTA argues that both ORA and Sempra's approach violate the provisions of § 453.5. Southwest Gas is concerned about the implementation complications associated with the Sempra approach because it has multiple rate jurisdictions within its California service territory.

4.2. Summary of Energy Division Proposal - Rank Allocation Methodology

The July 26, 2017 ALJ Ruling introduced into the record the Energy Division Staff Proposal: Rank Allocation Methodology for Providing Greenhouse Gas Allowance Proceed to Non-Residential Natural Gas Ratepayers (Staff Proposal). In the Staff Proposal, Energy Division stated that "some parties' proposals for the methodology of disbursing proceeds to non-residential ratepayers raise the potential for some ratepayers

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57 *Id.*

58 ORA Opening Comments at 6.

59 *Id.*

to receive an alleged 'windfall.'"[60] This statement refers to proposals, such as Sempra's, whereby proceeds allocated to each class for non-residential core and non-core customers would be distributed on an equal per-customer basis. This occurs because the amount of proceeds available for distribution to an individual customer is calculated based on usage of the class.

Energy Division's analysis of non-residential customer data shows that usage is highly skewed; total usage of the top ten percent of non-core customers is sixty-four times greater than the total usage of the bottom ten percent.[61] Energy Division states that an equal, flat distribution across customers could result in many lower-usage customers receiving a share of GHG proceeds that is "disproportionately affected by the skewed distribution of usage in their class."[62] That is to say, many customers could receive a large Climate Credit that might, in some cases, result in a profit on natural gas bills. Energy Division notes that Sempra's proposed segmentation, where non-core customers with annual usage less than 249,000 therms are moved over to the core class, still results in largely skewed distributions to remaining customers.

To address these concerns, Energy Division, in the Staff Proposal, puts forward for the Commission's consideration a basic statistical methodology called the "rank allocation methodology." This methodology would provide proceeds to individual non-residential core and non-core customers based on relative usage. The Climate Credit for each individual non-residential customer would be calculated by taking several steps. First, customers would be ranked from high to low usage relative to other customers in the class. Next, the individual ranks would be summed to arrive at a total class rank.

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[60] Administrative Law Judge's Ruling Incorporating Energy Division Staff Proposal on Allocation of Greenhouse Gas Allowance Proceeds into the Record and Requesting Comments at Attachment page 1.

[61] *Id.* at Attachment page 3.

[62] *Id.* at Attachment page 4.

Third, the share of proceeds available to each customer class would be calculated based on each class's share of total gas usage. Next, the class share of proceeds is divided by the total rank value. This results in a value in dollars equal to the individual rank value. Finally, each customer's individual rank is multiplied by the individual rank value, resulting in the calculated Climate Credit for that customer.[63]

Energy Division states that the rank allocation methodology avoids windfalls, is an equitable approach, is not sensitive to outliers or variability, protects customers while still sending an incentive to reduce emissions, and is equally applicable to non-residential classes. Energy Division expressly does not provide legal analysis of the rank allocation methodology.

4.2.1. Parties' Responses to Energy Division Proposal

On August 16, 2017, parties submitted comments providing useful feedback on the Staff Proposal for the Commission's consideration. PG&E and CMTA argue that the Staff Proposal violates § 453.5 and thus cannot be adopted. CSU is not opposed to the Staff Proposal and suggests that the Staff Proposal is less likely to introduce accounting inaccuracies as compared to other proposals. Southwest Gas raises some potential concerns that may occur as a result of separating out core and non-core customers and notes that the methodology may dilute the presence of a carbon price signal in rates. Sempra states that the Staff Proposal is another option that the Commission may consider; however, it raises concerns about how to communicate the methodology to customers. Sempra provides several suggestions and questions for the Commission's consideration if it were to adopt the Staff Proposal.

Finally, ARB submitted comments on the Staff Proposal. In its comments, ARB asserts that § 453.5 does not apply to the distribution of GHG allowance proceeds, and

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[63] *See* July 26, 2017 ALJ Ruling for a detailed description of the rank allocation methodology.

informs the Commission that it considers the Staff Proposal to be a volumetric return under § 95893(d). ARB further states that the Staff Proposal would create an incentive to increase gas consumption and GHG emissions and that the focus on windfalls is "to the detriment of the other critical policy objectives and regulatory requirements at issue in this proceeding."[64] ARB recommends that the Commission reject the Staff Proposal. Instead, ARB suggests that the Commission adopt "a proceeds return methodology for non-residential customers similar to that used for the distribution of electrical distribution utility allowance value in R.11-03-012 for customers that operate in sectors at risk of emissions leakage.[65] This would involve development of efficiency benchmarks for each particular affected industry.[66]

4.3. Discussion

The Commission sets forth its adopted GHG proceeds allocation methodology for customers of the natural gas utilities below. The adopted allocation methodology is pursuant to the governing legal requirements, including a non-volumetric distribution of GHG allowance proceeds under 17 CCR §95893. The Commission, following the guiding principles of AB 32 to maintain a carbon price signal while recognizing that residential customers will see the vast majority of cost increases in goods and services as a result of increasing natural gas prices, elects to return the majority of allowance proceeds to residential customers. The Commission views the allocation of proceeds to commercial and industrial customers as providing transition assistance towards inclusion of a full carbon price signal in core and non-core residential rates.

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[64] California Air Resources Board Comments on Energy Division Proposal on Allocation of Greenhouse Gas Allowance Proceeds, August 16, 2017, at 13.

[65] *Id.* at 12.

[66] *See* D.12-12-033 beginning at 97 for a detailed description of the industry benchmarking process for "emissions-intensive and trade-exposed" industries.

The Commission intends that this allocation methodology will remain in effect unless or until the Commission updates or adopts new policies for the period beyond December 31, 2020 or new Cap-and-Trade regulations adopted for the period beyond December 31, 2020 conflict with the direction adopted in this decision. If the Commission receives guidance from ARB that it is within its legal authority under § 95893(d)(2) to distribute GHG allowance proceeds solely to residential customers, the Commission may elect to revisit this allocation methodology for the period beginning January 1, 2021.

4.3.1. Step 1: Allocate GHG Proceeds to Residential Customers

As for how to return allowance proceeds to residential customers, this decision upholds the GHG proceeds distribution methodology for such customers adopted in D.15-10-032. Residential customers will receive a bill credit, known as the California Climate Credit, in an equal, non-volumetric manner, annually in April. The method of distribution to residential customers was not the subject of rehearing granted in D.16-04-013; rather, it was the proportion of proceeds received by residential customers that was under consideration.

Natural gas utilities are required to distribute GHG allowance proceeds to residential customers pursuant to the rules adopted in D.15-10-032. As discussed later in this decision, the Commission will net GHG compliance costs and proceeds for 2015-2017. The first residential California Climate Credit will be for the year 2018.

4.3.1.1. Proportion of Total GHG Allowance Available for Residential Customers

As found earlier in this decision, based on a conservative interpretation of § 95893(a), the Commission sets aside its decision in D.15-10-032 to distribute GHG allowance proceeds solely to residential customers. However, the Commission finds that the rationale to return the majority of GHG proceeds to residential customers articulated in D.12-12-033 is equally applicable to the residential customers of the natural gas utilities. D.12-12-033 states:

> By providing [allowance proceeds] on a non-volumetric basis, we largely preserve the overall demand for goods and services in the economy, which could otherwise be negatively impacted as increased electricity costs due to Cap-and-Trade result in a corresponding increase in the costs of goods and services. To the extent that customers receive the value of GHG allowance revenue and subsequently spend these revenues, the potentially adverse impacts of the Cap-and-Trade program are substantially reduced. Total spending in the economy will be largely maintained, but will be influenced by pricing that more appropriately affects the real costs of spending decision on the environment. As a result, though we do not return revenue to commercial and industrial entities that are not deemed to be [emissions-intensive and trade-exposed] (with the exception of small businesses, the revenue returned to households will largely, if not entirely, flow back into the economy, helping to mitigate the overall impacts of the program on demand for the goods and services those businesses provide.[67]

Pursuant to the authority granted to the Commission under § 95893(d)(2), the Commission finds that the most beneficial allocation of GHG allowance proceeds for all retail ratepayers is one that distributes a large portion of proceeds to residential customers while providing transition assistance to commercial and industrial customers towards inclusion of a full carbon price signal in rates. In this way, the Commission is able to mitigate the potential adverse impacts of indirect Cap-and-Trade costs included in the price of goods and services that will ultimately be borne by residential customers while still including a clear carbon price signal in residential customer rates.

Returning a larger portion of GHG proceeds to residential customers will also help to reduce adverse impacts on low-income households. As stated in D.12-12-033, "low-

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[67] D.12-12-033 at 109-110.

income households' non-energy expenses will likely increase as a result of the Cap-and-Trade program as...businesses pass through their own Cap-and-Trade related costs in the price of their goods and services. The impact of these price increases will likely be proportionally greater on lower income households, as these households tend to spend a greater proportion of their incomes on basic goods and services."[68]

Because § 453.5 does not apply, the Commission is not bound to return GHG allowance proceeds in proportion to GHG costs incurred by each customer. The Commission is well within its authority to determine an appropriate allocation across customer classes.[69] The Commission must then decide on the appropriate portion of GHG allowance proceeds to allocate to residential customers. Based on the record in this proceeding addressing rehearing, the Commission is presented with three main options. Following ORA's approach, the Commission would choose an allocation based on what it perceives to be best policy (ORA recommends 80 percent). Following Sempra's approach, whereby each utility would calculate the GHG compliance costs of the average residential user and then multiply that amount by the total number of residential customers to determine the pot of money available for return to the class. Any remaining proceeds would then be available to distribute to non-residential core and non-core customers. For SoCalGas, this methodology would result in an allocation of 85 percent of proceeds to residential customers. The third option is Southwest Gas' approach, whereby the utility would calculate the total number of residential customers versus the total number of commercial/industrial customers and divide proceeds accordingly.

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68 *Id* at 110.

69 Arguments made by CMTA and other that the Commission does not possess this authority rest upon the presumptive applicability of § 453.5. Because the Commission has found that § 453.5 does not govern, the Commission rejects any arguments that limit its ability to determine the appropriate proportional allocation of GHG proceeds.

While the Commission is prohibited from returning proceeds volumetrically pursuant to § 95893(d), the Commission must determine the appropriate portion of proceeds to dedicate to each customer class. ORA's recommendation of 80 percent, while allocating a significant portion of allowance proceeds to residential customers, does not appear to be based on an analysis of the indirect Cap-and-Trade costs that will be borne by residential customers or any other measure.

Sempra's approach, while based on usage, does result in a meaningful allocation of proceeds to the residential class. Furthermore, because the total amount of proceeds available to the residential customer class will be allocated on a flat, equal per-customer basis, proceeds received by any individual customers will not be based on that customer's usage and will therefore not be volumetric.[70] Finally, Sempra's approach will serve to maintain the carbon price signal in residential rates while also sending a signal to conserve. Lower users of natural gas will receive a California Climate Credit that is higher in proportion to their total natural gas bills than higher users.

Southwest Gas's approach, while non-usage based, could result in residential customers being treated differently depending upon their utility of service. Residential customers of a mostly residential utility would receive higher credits than residential customers in more industry/commercial heavy service territories. The Commission seeks to avoid treating similar customers differently depending upon their utility provider.

The Commission adopts Sempra's proposal to determine the proportion of GHG proceeds to allocate to the residential customer class for each utility. Each natural gas utility must, after removing forecast administrative and marketing costs from the total amount of forecasted GHG proceeds available for a distribution year, determine the

[70] A residential customer that happens to use natural gas at the exact rate of the average customer would receive what is, in essence, a volumetric return. However, theoretically, no one customer's usage would always be at the mean; therefore, a volumetric return is avoided over time.

average residential customer's usage and then multiply that usage by the total number of customers. This calculation will result in the total amount of GHG proceeds to be allocated to the residential customers of each natural gas utility. Proceeds must then be returned according to the methodology adopted in D.15-10-032. The remaining proceeds will be distributed to core and non-core non-residential customers as set forth below.

The Commission acknowledges that any distribution of proceeds based on usage, even the average usage of an entire customer class to determine the amount of proceeds available for that class, could be viewed as sending the perverse incentive to increase usage in order to increase the amount of proceeds received. However, using the California Climate Credit as a means of communicating about the benefits of conservation and efficiency outweighs that risk. The timing and mechanics for distribution of the residential California Climate Credit is set forth in Section 7, below.

4.3.2. Step 2: Allocate Remaining GHG Allowance Proceeds to Non-Residential Customers as an Equal Flat-Rate Return Based on Quartiles

After allocating GHG allowance proceeds to residential customers as detailed above, the natural gas utilities must then allocate remaining GHG allowance proceeds to non-residential core and non-core customers on an equal, flat per-account basis based on quartiles. To undertake this allocation, the utilities must follow the following steps:

> Step 1: Divide customers so as to create the following customer groupings: 1) small core and small non-core, grouped together; 2) large core; and 3) large non-core.[71] The definition of small core and small non-core customers is forth in Section 4.3.2.1, below.

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[71] In the event a customer receives gas on both a non-residential core and non-core tariff and is considered to be large pursuant to the definitions of small and large core and non-core set forth below, that customer shall be considered to be non-core for the purposes of distribution of the California Climate Credit, as recommended by Sempra (see Opening Comments of Southern California Gas Company and San Diego Gas& Electric Company at 5).

> Step 2: To determine the amount of GHG proceeds available to each customer group in Step 1 (small core and non-core (together), large core and large non-core), apportion the total available GHG proceeds, after the residential distribution, based on usage of each grouping. For example, if the small core and non-core group represents 10 percent of total non-residential usage, that group will receive 10 percent of the available GHG proceeds remaining after the residential allocation.
>
> Step 3: For each customer grouping in Step 1, divide customers into quartiles based upon usage. This will result in 12 customer sub-groupings (four for each of the three customer groupings in Step 1).
>
> Step 4: After the total amount of proceeds for each customer grouping has been determined in Step 2, the available proceeds for each quartile is calculated by apportioning the proceeds based on relative usage of the quartile. For example, if the bottom quartile of the small core/non-core group represents five percent of the total usage of the small core/non-core group, that quartile will receive five percent of the portion of proceeds allocated to the small core group as a whole.
>
> Step 5: In the final step, the utilities will equally divide, on a non-volumetric basis, the available proceeds for each quartile for small core and non-core (together), large core, and large non-core across all customers in that quartile. This will result in the California Climate Credit for non-residential customers, which will vary depending upon quartile.

The Commission adopts this non-residential GHG allocation methodology as a means of providing transition assistance to non-residential customers akin to that provided to small business customers in D.12-12-033.[72] The adopted approach is the Commission's solution to both adhere to regulatory requirements and preserve the policy objectives of AB 32, recognizing the short time-frame left between now and the end of 2020. If the Commission determines at a later date that its interpretation of § 95893(d)(2)

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[72] In D.12-12-033, the Commission states: It is our intent that small businesses should see a carbon price signal in their electricity rates. However, given the direction in § 748.5, it is appropriate to provide with transition assistance to ease small businesses to ease small businesses into the Cap-and-Trade Program and to provide additional time and capital to help businesses invest in strategies to reduce their exposure to GHG costs.

is overly conservative, the Commission may revisit this allocation beyond 2020 to ultimately transition non-residential customers to the presence of a full carbon price in rates.

The Commission adopts the above methodology based upon its review of parties' proposals, the Staff Proposal and comments. First, the Commission, as stated earlier, must return proceeds on a non-volumetric basis (and §453.5 does not govern); therefore, the Commission rejects outright party proposals that advocate for a direct volumetric return no matter the method of delivery of the return (CMTA, PG&E, CSU).

The adopted approach is a blended approach between that offered by Sempra, ORA and the Staff Proposal. The Sempra proposal with the option to allocate proceeds equally across customer accounts meets the objectives of distributing GHG allowance proceeds on a non-volumetric basis while also recognizing the disproportionate burden borne by residential ratepayers. However, as discussed earlier, given the large discrepancies between users at the bottom and top of the non-residential usage continuum, many smaller users could receive disproportionally large Climate Credits that could fully obscure a carbon price signal for those users, and indeed, could negate their entire natural gas bills.

The Staff Proposal attempted to address the potential for what it terms "windfalls" by developing a rank allocation methodology. However, in comments on the Staff Proposal, ARB, the promulgator of the Cap-and-Trade regulation, determined that the rank allocation methodology was akin to a volumetric return. As a solution, ARB recommends the Commission consider developing an approach similar to that used for entities eligible for Industry Assistance for their electric usage. While the Commission acknowledges that benefits of such an approach, given the late date of resolution of this proceeding and the short amount of time between now and the end of the first Cap-and-Trade program (December 31, 2020), the Commission is concerned that ARB's recommended approach is impractical. Development of efficiency benchmarks for Industry Assistance was a complicated, data-heavy, multi-year stakeholder process. To undertake such a process here could delay allocation of GHG proceeds to non-residential core and non-core customers for years to come.

By providing equal, flat per-account credits to each commercial or industrial customer, but dividing those customers into groups based somewhat on relative consumption, the Commission is able to preserve the carbon price signal in rates while also allocating allowance proceeds in a meaningful amount given the orders of magnitude discrepancies between usage among commercial and industrial customers. Providing proceeds in an amount that is in some way on-par with the size of the operation (a corner store uses a very different amount of natural gas each month than a large industrial process), allows the State of California, through the Climate Credit and associated marketing efforts, to communicate about efficiency and conservation measures in a meaningful way to each user. Overly small or large credits would dilute or subvert this opportunity.

Although there are usage-based (volumetric) elements to this method of return, the California Climate Credit received by each individual customer is not based on that customer's usage, but rather the consumption characteristics of customers that are similarly situated. Furthermore, the total amount of money available to non-residential customers is not based on the usage of that group as a whole; rather, it represents the amount of proceeds left over after disbursement of the residential Climate Credit.

The Commission finds the division of non-residential customer groupings into quartiles, which goes further than that recommended by Sempra, is necessary to avoid the potential for windfalls. However, by using blunt demarcations, and a flat return per quartile in each grouping, rather than the rank methodology proposed in the Staff Proposal, the Commission avoids a volumetric return for any individual customer. Finally, the Commission elects to treat separately large core and large non-core users. This separation is necessary because there is a large difference in upper-end usage between large core and large non-core customers.

While preservation of the carbon price signal is important, as noted by ARB in its comments on the Staff Proposal, and is a primary policy objective of this Commission, the potential for windfalls could result in obfuscation of the carbon price signal entirely for small users in each category (e.g. low-usage small core/non-core customers and lower usage large core or large non-core customers). By using the above-adopted divisions, the Commission maintains the presence of a carbon price signal while avoiding carbon price-signal obscuring windfalls.

To avoid a situation where any individual customer increases usage as a means of moving to a higher quartile, the Commission adopts, as set forth below in Section 7, certain data reporting confidentiality provisions. The mechanics (including reporting) and timing of the non-residential California Climate Credit is also discussed in that section.

4.3.2.1. Definition of Small Core and Non-Core Customers

Some utilities have a specific tariff for small core customers. Those tariffs designate small core customers as customers whose average monthly consumption does not exceed 20,800 therms over a certain time period. For those utilities that have a designated small core customer tariff, customers on that tariff shall be considered to be small core customers for the purposes of Step 1 above. All other core customers shall be considered to be large core customers. In the event a utility does not have a small core customer tariff, then that utility shall use the definition employed by SoCalGas in order to determine whether to designate a customer as small or large. SoCalGas defines small core customers as follows: small core commercial/industrial/NGV customers are [those] whose average consumption does not exceed 20,800 therms per active month during any 12 contiguous months within the most recent 24-month period.[73]

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[73] *See*: https://www.socalgas.com/documents/business/noticeofprogramsandservices.pdf.

For non-core customers, it is not clear whether utilities have designated lower-usage tariffs. Therefore, the Commission adopts Sempra's recommendation, which is to classify as small any non-core user with annual usage below 249,600 therms. This usage represents the monthly small usage of 20,800 therms summed over a 12-month period.[74]

5. GHG Compliance Costs and Proceeds Accrued to Date

The decision granting rehearing vacated the orders in D.15-10-032 that required the utilities to begin introducing GHG compliance costs into rates.[75] Therefore, to date, no GHG compliance costs have been included in the rates of natural gas ratepayers. In addition, while the Commission addressed rehearing, GHG proceeds have also been withheld from distribution to natural gas ratepayers. Thus, as of issuance of this decision, natural gas ratepayers are facing almost three years of accrued compliance costs and proceeds.

In D.15-10-032, the Commission directed that GHG compliance costs be included in rates commencing April 1, 2016, with 2015 costs to be amortized equally across 2016 and 2017.[76] In the Scoping Memo, parties provided feedback on how and when GHG compliance costs and allowance proceeds accrued to date should be included in rates. The inclusion of GHG compliance costs in rates and distribution of GHG allowance proceeds on a going forward basis upon adoption of this decision is addressed in the next section.

PG&E, ORA, and Sempra, in comments on the Scoping Memo, suggest that amortizing 2015 and 2016 compliance costs into natural gas rates in the near future

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[74] Opening Comments of Southern California Gas Company and San Diego Gas & Electric Company at 5.

[75] D.16-04-013, Ordering Paragraph 4.

[76] D.15-10-032 at 20.

would result in a significant increase in natural gas rates. Indeed, as ORA notes in its comments, utility analyses of two different amortization scenarios contained in their Fall 2016 advice letters show that amortization of 2015 and 2016 compliance costs could result in rates increases ranging from 35 to 85 percent.[77] To mitigate against rate spikes, PG&E, Southwest Gas, and Sempra recommend netting accrued GHG compliance costs for the years 2015 and 2016, against GHG proceeds (less administrative and outreach costs, as directed in D.15-10-032) for the same years. ORA recommends the same approach, but includes 2017 compliance costs and proceeds. If the net amount is positive, remaining GHG proceeds would be added onto proceeds distributed in the current year to eligible customer classes and individual customers (excluding exempt customers). If the amount is negative, remaining GHG compliance costs would be added to forecast compliance instrument costs. No party disagreed with this approach, with the exception that ORA proposes "netting out" 2017 as well.

The netting approach proposed by parties is reasonable and is adopted here. Given the issuance date of this decision and the time the utilities will need to implement the provisions of this decision, it is reasonable to include 2017 in this netting approach. Given also that the current Cap-and-Trade compliance period ends in 2020, utility ratepayers are facing three years of accrued GHG compliance costs that could only be amortized across the remaining three years, resulting in significant rate spikes. While it is the goal and intent of AB 32 and Commission policy to send a clear carbon price signal to ratepayers, amortization of three years of accrued GHG compliance costs over such a short timeframe would overinflate the impact of GHG and send a distorted price signal. Similarly, inclusion of three years of GHG proceeds would overstate the benefit of that

[77] In their Fall 2016 advice letters, the utilities were required to analyze two different amortization scenarios. In the first, both 2015 and 2016 costs would be amortized equally across 2017 and 2018. In the second, 2015 costs would be amortized equally across 2017 and 2018, and 2016 costs would be amortized equally across 2019 and 2020. The advice letters did not contemplate 2017 GHG costs.

tool. It is a missed opportunity to include the carbon price signal in rates; however, the Commission agrees with parties that the prudent approach for addressing accrued GHG compliance costs and GHG proceeds for the years 2015, 2016 and 2017 is to net GHG compliance costs for those three years against GHG proceeds and distribute the net positive or negative amount to eligible natural gas ratepayers.

To implement this approach, the utilities are required to calculate the total per customer GHG compliance costs for the three year 2015-2017 and net those costs against the amount of GHG proceeds each customer would have received for those three years based upon the GHG proceeds allocation methodology adopted in this decision. In the event that GHG compliance costs exceed proceeds, net costs must be amortized in rates over a 12-month period beginning when 2018 greenhouse gas compliance costs first appear in rates. If GHG proceeds exceed GHG compliance costs, remaining proceeds must be distributed equally across each of the disbursement periods from 2018-2020. Net GHG compliance costs, should they exist, must be included in base transportation rates as directed in D.15-10-032 (*see* page 41).

6. GHG Costs and Proceeds on a Going Forward Basis

Southwest Gas and Sempra requested that GHG costs and proceeds on a going forward basis begin to be included in rates as of October 2017. Given the issuance date of this decision, an October 2017 date is not feasible. Furthermore, the Commission has elected to net all 2017 GHG compliance costs and proceeds as set forth in the previous section. Therefore, GHG compliance costs should begin to be included in rates beginning March 1, 2018. GHG proceeds for the year 2018 should be distributed according to the methodology and timeline adopted herein and using the procedures adopted in D.15-10-032. GHG costs for January-February 2018 must be amortized over the remaining ten months of 2018.

7. Implementation of the Residential and Non-Residential Climate Credit (Timing, Mechanics, Reporting)

There are many logistical components necessary to implement the residential and the non-residential California Climate Credit, including timing, mechanics and reporting. First, this section will address timing and then moves to mechanics. Reporting will be addressed under Section 7.1 pertaining to advice letters.

The Commission directs that each utility delivers its non-residential California Climate Credit on the same timing as the residential credit; that is annually in April of each year. Recognizing that there may be significant steps required of the utilities to implement the non-residential credit, for 2018 only, the Commission grants some leeway through June 2018 to distribute the 2018 non-residential California Climate Credit. The residential California Climate Credit must be distributed in April of 2018. The utilities are required to designate the month of distribution of the non-residential California Climate Credit in the Tier 2 advice letters ordered below. The annual non-residential California Climate Credit shall appear as a separate line-item on customer bills on the month that the credit is delivered.

For all non-residential climate credits, determination of quartiles shall be based on the previous calendar year's billed data, rather than actual usage data. Usage shall be determined to the highest level of precision used by the utility to determine usage elsewhere in its usual business activities. Similarly, the total proportional share for each group in Step 3 shall be determined based on billed data for the previous year. California Climate Credits shall only be distributed to customers (residential and non-residential) who are active at the time of the disbursement of the Climate Credit, and customers shall receive the full credit no matter the length of time as a customer.

7.1. Tier 2 Advice Letter Filings

The Commission will require several advice letter filings from the utilities in order to fully implement the residential and non-residential California Climate Credit as well as to implement the inclusion of GHG costs in rates beginning in March of 2018 and the netting of 2015-2017 costs and proceeds. The Commission requires the following advice letter filings:

- Each natural gas utility must file a Tier 2 Advice Letter within 45 days of this decision to include the following:
    - Detailed calculations showing the amount of GHG proceeds available for residential ratepayers in 2018 and the 2018 Residential California Climate Credit. This information should be displayed using the format of Table C, adopted in Appendix A to D.15-10-032, which each utility shall update to reflect calculations showing the proportion of total GHG proceeds to be allocated to the residential class.
    - Detailed calculations of GHG compliance costs to be included in rates beginning in March of 2018, including calculations showing the amortization of January-February 2018 compliance costs.
    - Detailed accounting of the netting of 2015-2017 GHG compliance costs and proceeds for residential customers as well as an amortization schedule for residual GHG compliance costs, if any. If there are residential GHG proceeds, utilities should include a final calculated 2018 residential Climate Credit reflecting the inclusion of the net surplus.
    - Updated residential Table B calculations for 2015-2017. Table B can be found in Appendix A to D.15-10-032.
- Within 60 days of issuance of this decision, each natural gas utility must file a Tier 2 advice letter to include the following:
    - Detailed calculations showing the amount of GHG proceeds available for non-residential core and non-core customers in 2018. Utilities must show calculations for the quartiles for each non-residential customer group designated in this decision as well as the derived California Climate Credit for each quartile in each customer group. Utilities should include raw data for verification of the calculation of quartiles.
    - The month in which the utility will distribute the 2018 non-residential California Climate Credit (April, May or June).

  - Method for how each utility will identify small core and non-core customers.
  - Detailed calculations of non-residential GHG compliance costs to be included in rates beginning in March of 2018, including calculations showing the amortization of January-February 2018 compliance costs.
  - Detailed accounting of the netting of 2015-2017 GHG compliance costs and proceeds for non-residential customers as well as an amortization schedule for residual GHG compliance costs. If there are residential GHG proceeds, utilities should include final calculated 2018 Climate Credits reflecting the inclusion of the net surplus.
  - Updated Table B calculations for 2015-2017. Table B can be found in Appendix A to D.15-10-032.
- On a going forward basis, excluding the advice letter filings required in this decision, the utilities shall file forecast and actual GHG costs and proceeds pursuant to the templates and timeframes adopted in D.15-10-032. Energy Division should issue a resolution updating Table C and any other tables attached to D.15-10-032 as needed to reflect the changes adopted in this decision. Table C should include calculations for the non-residential Climate Credit as well as updated residential calculations. The Commission should strive to adopt the updated tables, for use on a going forward basis, well in advance of the utilities' Fall 2018 compliance filings. The utilities will be required to use the updated tables in all future compliance filings other than those ordered in this decision. To the extent that the calculation methodologies adopted by the Commission differ from those used by the utilities in their advice letter filings required above, any necessary true-ups for 2018 compliance costs and proceeds shall occur in 2019.

7.1.1. Confidentiality of Data

In D.15-10-032, the Commission adopted confidentiality provisions and a matrix detailing all information deemed confidential. This decision does not disturb those determinations; however, the allocation methodology adopted herein requires additional confidentiality measures. Information regarding the average usage of residential customers shall be deemed confidential. For the non-residential return, all information used to calculate the quartiles, as well as the designations of the ranges of the quartiles themselves will be confidential. This ensures that customers do not have an incentive to alter behavior in order to move between quartiles. The final Climate Credit for each quartile as well as the amount of GHG proceeds available in total to the residential and non-residential class shall be public.

8. Hearing

The Scoping Memo determined that this proceeding addressing limited rehearing could be addressed without the need for formal evidentiary hearings; however, parties were afforded the opportunity to request hearings concurrent with the February 24, 2017 opening comments. No party made such a request, and the Commission resolved this proceeding based on the existing record. Therefore, the preliminary determination that hearings are not needed remains undisturbed.

9. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on ____, and reply comments were filed on ____ by ____.

10. Assignment of Proceeding

Carla J. Peterman is the assigned Commissioner and Melissa K. Semcer is the assigned ALJ in this proceeding.

Findings of Fact

1. Natural gas utilities are directly allocated free GHG allowances under the California Cap-and-Trade Program.

2. GHG allowance proceeds are generated when directly allocated, free GHG allowances are consigned to auction by the natural gas utilities.

3. The amount of GHG allowance proceeds available for distribution to eligible customers of the natural gas utilities is determined by the market clearing price of GHG allowances sold at a particular auction.

4. Natural gas utilities have a compliance obligation to purchase and surrender GHG allowances pursuant to the California Cap-and-Trade Program.

5. Greenhouse gas compliance costs are the costs borne by utility ratepayers to meet the GHG compliance obligation of the natural gas utility under the California Cap-and-Trade Program.

6. The amount of GHG proceeds to be distributed to eligible ratepayers is determined separately from any GHG compliance costs that eligible utility customers pay in rates.

7. GHG proceeds are similar to sulfur dioxide allowance proceeds.

8. GHG proceeds are not funds that were previously collected in rates from ratepayers.

9. GHG proceeds are not funds that were previously ordered to be refunded to customers by any regulatory agency.

10. Natural gas utility customers are not charged in rates for the GHG allowances that are consigned to auction that result in GHG proceeds.

11. A volumetric distribution of GHG allowance proceeds dampers the carbon price signal in rates.

12. Natural gas GHG costs will, in most cases, ultimately be passed through to residential customers as a result of higher gas rates being embedded in the cost of goods and services.

13. In D.15-10-032, the Commission determined that natural gas customers eligible to receive GHG allowance proceeds are those that are not considered to be covered entities by ARB.

14. Customers ineligible to receive GHG allowance proceeds are referred to as exempt customers.

15. There is no reason to disturb the Commission's determination of eligible customers or the methodology to identify eligible customers adopted in D.15-10-032.

16. The GHG allowance proceeds distribution methodology for residential customers was not the subject of rehearing.

17. Providing GHG allowance proceeds to residential customers is more equitable and comports with the idea of common ownership of the atmosphere given that residential ratepayers will ultimately bear the increased costs as a result of the Cap-and-Trade program.

18. Returning a larger portion of GHG proceeds to residential customers will help to reduce adverse impacts on low-income households.

19. Sempra's proposal to distribute GHG allowance proceeds based upon average residential customer usage results in a meaningful allocation of proceeds to the customer class.

20. Non-residential customer usage is highly skewed; total usage of the highest usage non-core customers far exceeds that of the lowest.

21. Allocation of GHG proceeds to non-residential customer's is a means of providing transition assistance toward inclusion of a carbon price signal in rates and is akin to that provided to small business customers in D.12-12-033.

22. Allocation of GHG proceeds on an equal, flat per-customer basis for the non-residential sector with no further customer segmentation could result in the carbon price signal being fully obscured for smaller users.

23. It is impractical at this time to adopt an allocation methodology for non-residential customers akin to the methodology used for emissions-intensive and trade-exposed industries eligible for Industry Assistance for their electric usage.

24. By providing equal, flat per-account credits to commercial or industrial customers, segmented into groupings and quartiles per grouping, the carbon price signal would be preserved while providing a rational amount of GHG allowance proceeds to each customer.

25. Providing GHG proceeds in a manner that is non-volumetric and also relevant with the size of a commercial or industrial operation incentivizes efficiency and conservation measures in a meaningful way to each user.

26. Dividing non-residential customers into small core/non-core, large core and non-core groupings and then dividing those respective groups into quartiles is necessary to avoid the potential for windfalls and the loss of the carbon price signal in rates.

27. The adopted methodology is a non-volumetric distribution of GHG allowance proceeds since credits are returned on an equal, flat amount per quartile in each customer group.

28. The total amount of GHG proceeds available to non-residential customers is not based on the usage of that group; rather, it represents the amount of proceeds left over after disbursement of the residential Climate Credit.

29. There is a large discrepancy in upper-end usage between large core and large non-core customers.

30. Some natural gas utilities have a specific tariff for small core customers. Small core customers are designated as those whose average monthly consumption does not exceed 20,800 therms over a certain time period (usually 12 or 24 months). The total annual usage for small core customers is 249,600 therms.

31. Southern California Gas Company defines small core customers as follows: small core commercial/industrial/NGV customers are [those] whose average consumption does not exceed 20,800 therms per active month during any 12 contiguous months over the most recent 24-month period.

32. For non-core customers, it is not clear whether the natural gas utilities have designated low-usage, or small customer tariffs.

33. To date, no GHG compliance costs have been included in the rates of natural gas ratepayers. GHG proceeds that have accrued to date have also not been distributed to natural gas ratepayers. Natural gas ratepayers are facing almost three years of accrued GHG compliance costs and GHG allowance proceeds.

34. Amortization of accrued 2015-2017 GHG compliance costs over the remaining time period of the first Cap-and-Trade program (through the end of 2020) could result in rate spikes for natural gas utility customers.

35. Amortization of GHG compliance costs over a three-year time period (2018-2020) would overinflate the impact of GHG and send a distorted carbon price signal.

36. Amortization of three years of GHG proceeds (2015-2017) over the remaining years of the program (2018-2020) would overstate the benefit of GHG proceeds to natural gas ratepayers.

37. Netting 2015-2017 accrued GHG compliance costs against 2015-2017 GHG proceeds, while a missed opportunity to include the carbon price signal in rates, is a prudent approach to avoid rate spikes.

38. The natural gas utilities will require significant time to implement the provisions of this decision. It would be impractical to include GHG compliance costs in rates on a going forward basis beginning in January of 2018.

39. Inclusion of GHG compliance costs in rates beginning in March of 2018 will require the natural gas utilities to amortize January and February 2018 costs.

40. In D.15-10-032, the Commission adopted procedures for accounting for GHG compliance costs and GHG proceeds and methodologies to deliver GHG proceeds to utility customers.

41. In D.15-10-032, the Commission ordered the natural gas utilities to distribute the residential California Climate Credit once annually in April of each year.

42. The Commission adopted confidentiality protocols in D.15-10-032. Certain information required to calculate the residential and non-residential California Climate Credits adopted in this decision require confidential treatment.

43. No party requested evidentiary hearings pursuant to the direction of the Scoping Memo.

44. All matters of rehearing have been addressed by this decision.

Conclusions of Law

1. GHG allowances that the utilities must consign to auction are freely and directly allocated to each natural gas utility pursuant to 17 CCR §§ 95879(f), 95890(f) and 945893.

2. GHG allowance proceeds do not meet each (or any) of the three characteristics to qualify as "rate refunds" set forth in *California Manufacturer's Association v. Public Utilities Commission*, 24 Cal3d. 836 (1979).

3. Pub. Util. Code § 453.5 does not apply to the distribution of GHG allowance proceeds.

4. Pursuant to 17 CCR § 95893(d)(3), the Commission is required to return GHG allowance proceeds in a non-volumetric manner.

5. A volumetric distribution of GHG allowance proceeds contravenes the legislative directive of AB 32 to ameliorate GHG emissions.

6. GHG proceeds allocation proposals that returns GHG proceeds in direct relationship to GHG costs borne by each individual customer violate 17 CCR § 95893(d), even if proceeds are distributed in an aggregated manner and not in the same time period in which the GHG costs were incurred.

7. 17 CCR § 95893(a) requires that GHG allowance proceeds be used "exclusively for the benefit of the retail ratepayers of each natural gas supplier."

8. Pub. Util. Code § 748.5 applies only to the distribution of GHG allowance proceeds to electricity customers.

9. By returning GHG allowance proceeds to all eligible retail ratepayers of the natural gas utilities, the Commission applies a conservative interpretation of 17 CCR § 95893(a).

10. Because Pub Util. Code § 453.5 does not govern, the Commission is not required to allocate GHG allowance proceeds to each customer class (residential, non-residential core and non-residential non-core) in proportion to GHG compliance costs incurred by that class.

11. Sempra's proposal to identify customers eligible to receive GHG allowance proceeds as those that do not receive a "Cap-and-Trade Exemption" line-item credit on their natural gas bills is reasonable as a final check to ensure that exempt customers do not receive GHG allowance proceeds in error. This method should not replace the identification methodology adopted in D.15-10-032.

12. Aside from Public Utilities Code that governs generally, the sole regulation governing the distribution of GHG allowance proceeds to natural gas utilities is 17 CCR § 95893.There is no reason to disturb the residential GHG allocation methodology adopted in D.15-10-032. Residential customers should receive a California Climate Credit distributed on an equal, non-volumetric manner.

13. Sempra's proposal for determining the proportion of total GHG proceeds to allocate to the residential customer class of each utility is reasonable and should be adopted.

14. It is reasonable to divide the non-residential customer class up into small core/non-core, large core and large non-core groupings.

15. It is reasonable to divide the non-residential customer groupings into quartiles to ensure preservation of the carbon price signal and to avoid windfalls.

16. It is reasonable to provide GHG proceeds to non-residential customers on an equal, flat per-customer basis within each quartile.

17. The GHG proceeds allocation methodology adopted in this decision conforms to 17 CCR § 95893 and should be adopted.

18. The utilities who have tariffs designating small core customers (with average monthly usage not exceeding 20,800 therms) should designate those customers as small core for the purposes of distribution of GHG allowance proceeds.

19. It is reasonable to require utilities that do not have a specific small-core customer tariff to adopt the small core definition used by SoCalGas, that is small core commercial/industrial/NGV customers whose average consumption does not exceed

20,800 therms per active month during any 12 contiguous months over the most recent 24-month period.

20. It is reasonable to adopt Sempra's small non-core customer definition. Small non-core customers should be defined as any non-core user with annual usage below 249,000 therms.

21. It is reasonable to net 2015-2017 accrued GHG compliance costs against 2015-2017 accrued GHG proceeds.

22. Given the issuance date of this decision and the time the natural gas utilities will need to implement the provisions of this decision, the Commission should adopt ORA's proposal and net GHG compliance costs and GHG accrued proceeds for 2017, in addition to 2015-2016.

23. On a going forward basis, GHG compliance costs should be included in rates beginning March 1, 2018. The natural gas utilities should amortize January and February 2018 GHG compliance costs over the remaining ten months of 2018.

24. Natural gas utilities should distribute GHG proceeds using the procedures adopted in D.15-10-032, as updated by this decision.

25. It is reasonable to continue to distribute the residential California Climate Credit once annually in April of each year.

26. It is reasonable to require the natural gas utilities to distribute the non-residential California Climate Credit on the same schedule as the residential California Climate Credit. However, in order to allow sufficient time to implement the provisions of this decision, the utilities should be allowed leeway to distribute the 2018 non-residential California Climate Credit anytime between April and June of 2018.

27. Unless explicitly stated, no part of this decision should supplant the direction adopted in D.15-10-032. The utilities should continue to follow all direction adopted in D.15-10-032, except where superseded or changed by this decision.

28. The mandates of D.15-10-032 and this decision should remain in effect unless or until the Commission adopts updated policies or unless new Cap-and-Trade regulations for the period beyond 2020 conflict with policies and procedures adopted to date.

29. The utilities should file the Tier 2 advice letter set forth in Appendix B to implement the provisions of this decision.

30. Energy Division should issue a resolution adopting an updated Table C and any other tables as necessary to reflect the changes adopted in this decision and to allow for future tracking and analysis on a consistent basis across utilities. The natural gas utilities should use the updated tables for all future compliance filings other than those required in this decision. The Commission should strive to adopt the updated tables well in advance of the utilities' Fall 2018 compliance filings directed in D.15-10-032.

31. In addition to all information deemed confidential in D.15-10-032, average residential customer usage, all information used to calculate the quartiles, and the designations of the ranges of the quartiles themselves should be kept confidential. The final Climate Credit for each of the 12 non-residential groupings as well as the amount of GHG proceeds available in total to the residential and non-residential class should be public.

32. The Commission's preliminary determination that hearings were not needed to resolve this proceeding should remain undistributed.

33. R.14-03-003 should be closed.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company, Southern California Gas Company, San Diego Gas & Electric Company and Southwest Gas Company must distribute greenhouse gas allowance proceeds to all eligible retail customers, as eligible customers are defined in Decision 15-10-032, according to the provisions set forth in Appendix A to this decision.

Pacific Gas and Electric Company, Southern California Gas Company, San Diego Gas & Electric Company and Southwest Gas Company must distribute greenhouse gas allowance proceeds to residential customers pursuant to the methodology adopted in Decision 15-10-032.

2. The greenhouse gas proceeds allocation methodology adopted in Decision 15-10-032, as modified by this decision, will remain in effect unless or until the Commission adopts updated policies or unless new Cap-and-Trade regulations for the period beyond 2020 conflict with the adopted policies and procedures.

3. Pacific Gas and Electric Company, Southern California Gas Company, San Diego Gas & Electric Company and Southwest Gas Company must designate the annual non-residential California Climate Credit as a separate line-item on customer bills on the month that the credit is distributed, on par with the direction provided in Decision 15-10-032 for the residential California Climate Credit.

4. Pacific Gas and Electric Company, Southern California Gas Company, San Diego Gas & Electric Company and Southwest Gas Company must designate as "small core customers" any customer on a specific tariff with average monthly usage not to exceed 20,800 therms. In the event that a utility lacks a specific tariff for small core customers, small core customers shall be defined as follows. Small core commercial/industrial/NGV customers are those whose average consumption does not exceed 20,800 therms per active month during any 12 contiguous months during the most recent 24-month period.

5. Pacific Gas and Electric Company, Southern California Gas Company, San Diego Gas & Electric Company and Southwest Gas Company must designate as small non-core customers any non-core user with annual usage below 249,600 therms.

6. Pacific Gas and Electric Company, Southern California Gas Company, San Diego Gas & Electric Company and Southwest Gas Company must only distribute the California Climate Credit to customers that are active at the time of disbursement of the credit. Active customers shall receive the full amount of the California Climate Credit no matter the length of time as a customer.

7. Pacific Gas and Electric Company, Southern California Gas Company, San Diego Gas & Electric Company and Southwest Gas Company must net accrued 2015-2017 greenhouse gas compliance costs against 2015-2017 accrued greenhouse gas proceeds, minus administrative and outreach costs per Decision 15-10-032. To net costs and proceeds, the natural gas utilities must calculate the total per customer greenhouse gas compliance costs for 2015-2017 and net those costs against the amount of greenhouse gas proceeds each customer would have received for the period 2015-2017 based upon the greenhouse gas proceeds allocation methodology adopted in this decision (set forth in Appendix A).

8. In the event that netted 2015-2017 greenhouse gas compliance costs exceed netted 2015-2017 greenhouse gas proceeds, Pacific Gas and Electric Company, Southern California Gas Company, San Diego Gas & Electric Company and Southwest Gas Company must amortize remaining greenhouse gas costs for the 2015-2017 time period over a 12-month period beginning when 2018 greenhouse gas compliance costs first appear in rates. Net greenhouse compliance costs, should they exist, must be included in base transportation rates as directed in Decision 15-10-032.

9. In the event that netted 2015-2017 greenhouse gas proceeds exceed netted 2015-2017 greenhouse gas compliance costs, Pacific Gas and Electric Company, Southern California Gas Company, San Diego Gas & Electric Company and Southwest Gas Company must distribute remaining proceeds equally across each of the disbursement periods from 2018-2020.

10. Pacific Gas and Electric Company, Southern California Gas Company, San Diego Gas & Electric Company and Southwest Gas Company must include 2018 greenhouse gas compliance costs in rates beginning March 1, 2018. Greenhouse gas compliance costs for January and February of 2018 must be amortized over the remaining ten months of 2018.

11. Pacific Gas and Electric Company, Southern California Gas Company, San Diego Gas & Electric Company and Southwest Gas Company must distribute the non-

residential California Climate Credit on the same timing as the residential California Climate Credit adopted in Decision 15-10-032. The non-residential California Climate Credit must be distributed in April of each year. However, for 2018 only, Pacific Gas and Electric Company, Southern California Gas Company, San Diego Gas & Electric Company and Southwest Gas Company may each elect to distribute the non-residential California Climate Credit in any of the months April, May or June 2018. Each utility must designate the 2018 non-residential California Climate Credit distribution month in the advice letters ordered in Ordering Paragraph 15.

12. Pacific Gas and Electric Company, Southern California Gas Company, San Diego Gas & Electric Company and Southwest Gas Company must distribute the residential California Climate Credit in April of each year starting in 2018.

13. In order to determine the quartiles for each of the non-residential customer groupings set forth in Appendix A, Pacific Gas and Electric Company, Southern California Gas Company, San Diego Gas & Electric Company and Southwest Gas Company must rely on the previous calendar year's billed data for each customer.

14. Within 45 days of issuance of this decision, Pacific Gas and Electric Company, Southern California Gas Company, San Diego Gas & Electric Company and Southwest Gas Company must file a Tier 2 Advice Letter providing information necessary to implement the residential California Climate Credit and to include residential greenhouse gas compliance costs in rates. Information and calculations required in this advice letter are as set forth in Appendix B to this decision.

15. Within sixty days of issuance of this decision, Pacific Gas and Electric Company, Southern California Gas Company, San Diego Gas & Electric Company and Southwest Gas Company must file a Tier 2 Advice Letter providing information necessary to implement the non-residential California Climate Credit and to include non-residential greenhouse gas compliance costs in rates. Information and calculations required in this advice letter filing are as set forth Appendix B to this decision.

16. On a going forward basis, Pacific Gas and Electric Company, Southern California Gas Company, San Diego Gas & Electric Company and Southwest Gas Company must file forecast and actual greenhouse costs and proceeds pursuant to the templates and timeframes adopted in Decision 15-10-032.

17. In the event that the calculations used by Pacific Gas and Electric Company, Southern California Gas Company, San Diego Gas & Electric Company and Southwest Gas Company in the advice letters ordered in Ordering Paragraphs 13 and 14 differ from the calculation methodologies adopted by the Commission upon issuance of a resolution updating Table C and any other tables adopted in Decision 15-10-032 necessary to track calculations on a going forward basis, any necessary true-ups for 2018 greenhouse gas compliance costs and proceeds shall occur in 2019.

18. In addition to all information deemed confidential in Decision 15-10-032, average residential customer usage, all information used to calculate the quartiles set forth in Appendix A, and the designations of the ranges of the quartiles themselves is confidential. The final Climate Credit for each of the 12 non-residential groupings as well as the amount of greenhouse gas proceeds available in total to the residential and non-residential class is public.

19. Pacific Gas and Electric Company, Southern California Gas Company, San Diego Gas & Electric Company and Southwest Gas Company must continue to follow the mandates adopted in Decision 15-10-032 unless explicitly superseded by this decision.

20. The original determination that hearings are not necessary is confirmed.

21. Rulemaking 14-03-003 is closed.

This order is effective today.

Dated ______________________, at San Francisco, California.

Appendix A

Residential and Non-Residential Natural Gas Greenhouse Gas Allowance Proceeds Allocation

Appendix A: Residential and Non-Residential Natural Gas Greenhouse Gas (GHG) Allowance Proceeds Allocation

A. Residential GHG Allowance Proceeds Allocation Methodology

Step 1: Determine forecast GHG allowance proceeds available for a distribution year.

Step 2: Remove forecast administrative and marketing administrative costs from the total amount of forecast GHG allowance proceeds for relevant distribution year.

Step 3: Determine average residential customer's usage for the relevant distribution year.

Step 4: Multiply average residential customer's usage by total number of customers to determine total amount of GHG allowance proceeds allocated to the residential class.

Step 5: Set aside remaining GHG allowance proceeds for allocation to non-residential customers (as further detailed in Section B below.)

Step 6: Distribute allowance proceeds, as calculated in Step 4 above, to the residential class pursuant to the methodology adopted in D.15-10-032.

B. Non-Residential GHG Allowance Proceeds Allocation Methodology

Step 1: Divide non-residential customers so as to create the following customer groupings: 1) small core and small non-core, grouped together; 2) large core; and 3) large non-core. The definition of small core and small non-core customers is forth in Section 4.3.2.1 of the instant decision.

Step 2: To determine the amount of GHG proceeds available to each customer group in Step 1 (small core and non-core (together), large core and large non-core), apportion the total available GHG proceeds, after the residential distribution, based on usage of each grouping. For example, if the small core and non-core group represents ten percent of total non-residential usage, that group will receive ten percent of the available GHG proceeds remaining after the residential allocation. To determine usage, the utilities must rely on billed data for the previous calendar year.[78] Usage shall be determined to the highest level of precision used by the utility to determine usage elsewhere in its usual business activities.

Step 3: For each customer grouping in Step 1, divide customers into quartiles based upon usage. This will result in 12 customer sub-groupings (four for each of the three customer groupings in Step 1.)

Step 4: After the total amount of proceeds for each customer grouping is determined in Step 2, the available proceeds for each quartile is calculated by apportioning the proceeds based on relative usage of the quartile. For example, if the bottom quartile of the small core/non-core group represents five percent of the total usage of the small core/non-core group, that quartile will receive five percent of the portion of proceeds allocated to the small core group as a whole.

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[78] In the event a customer receives gas on both a non-residential core and a non-core tariff and is considered to be large pursuant to the definitions adopted in this decision, that customer shall be considered to be non-core for the purposes of distribution of the California Climate Credit.

Step 5. In the final step, the utilities will equally divide, on a non-volumetric basis, the available proceeds for each quartile for small core and non-core (together), large core, and large non-core across all customers in that quartile. This will result in the California Climate Credit for each quartile for each non-residential class customer grouping.

Appendix B

Advice Letter Compliance Filings and Energy Division Resolution

Appendix B: Advice Letter Compliance Filings and Energy Division Resolution

Residential Tier 2 Advice Letter

- Each natural gas utility must file a Tier 2 Advice Letter within 45 days of this decision to include the following:
    - Detailed calculations showing the amount of greenhouse gas (GHG) proceeds available for residential ratepayers in 2018 and the 2018 Residential California Climate Credit. This information should be displayed using the format of Table C, adopted in Appendix A to D.15-10-032, which each utility shall update to reflect calculations showing the proportion of total GHG proceeds to be allocated to the residential class.
    - Detailed calculations of GHG compliance costs to be included in rates beginning in March of 2018, including calculations showing the amortization of January-February 2018 compliance costs.
    - Detailed accounting of the netting of 2015-2017 GHG compliance costs and proceeds for residential customers as well as an amortization schedule for residual GHG compliance costs, if any. If there are residential GHG proceeds, utilities should include a final calculated 2018 residential Climate Credit reflecting the inclusion of the net surplus.
    - Updated residential Table B calculations for 2015-2017. Table B can be found in Appendix A to D.15-10-032.

Non-Residential Tier 2 Advice Letter Filing

- Within 60 days of issuance of this decision, each natural gas utility must file a Tier 2 advice letter to include the following:
    - Detailed calculations showing the amount of greenhouse gas (GHG) proceeds available for non-residential core and non-core customers in 2018. Utilities must show calculations for the quartiles for each non-residential customer group designated in this decision as well as the derived California Climate Credit for each quartile in each customer group. Utilities should include raw data for verification of the calculation of quartiles.
    - The month in which the utility will distribute the 2018 non-residential California Climate Credit (April, May or June).
    - Method for how each utility will identify small core and non-core customers.
    - Detailed calculations of non-residential GHG compliance costs to be included in rates beginning in March of 2018, including calculations showing the amortization of January-February 2018 compliance costs.
    - Detailed accounting of the netting of 2015-2017 GHG compliance costs and proceeds for non-residential customers as well as an amortization schedule for residual GHG compliance costs. If there are residential GHG proceeds, utilities should include final calculated 2018 Climate Credits reflecting the inclusion of the net surplus.
    - Updated Table B calculations for 2015-2017. Table B can be found in Appendix A to D.15-10-032.

Energy Division Resolution

Energy Division should issue a resolution updating Table C and any other tables attached to Decision15-10-032 as needed to reflect the changes adopted in this decision. Table C should include calculations for the non-residential Climate Credit as well as updated residential calculations. The Commission should strive to adopt the updated tables, for use on a going forward basis, well in advance of the utilities' Fall 2018 compliance filings. The utilities will be required to use the updated tables in all future compliance filings other than those ordered in this decision.